

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
STATE: California

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT
RATES - PRESCRIBED DRUGS

PAYMENT METHODOLOGY FOR PRESCRIPTION DRUGS

The policy of the State Agency is that reimbursement for Pharmaceutical Services and Prescribed Drugs, as one category of health care or service from among those listed in Section 1905 (a) of the Act that are included in the program under the plan, will be at the provider pharmacy's current charges to the general public, up to the State Agency's limits. The price providers charge to the program shall not exceed that charged to the general public. The pharmacist, to the extent permitted by law, shall dispense the lowest cost, therapeutically equivalent drug product that the pharmacy has in stock which meets the medical needs of the beneficiary.

The methodology utilized by the State Agency in compliance with 42 CFR 447.331 and 447.332 in establishing payment rates for Pharmaceutical Services (pharmacy dispensing fees) and Prescribed Drugs (dispensed drug products) to implement the policy will be as follows:

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- A. The method used to establish maximum drug product payments is that payments for drugs dispensed by pharmacists shall consist of the lowest of the state's Estimated Acquisition Cost (EAC) of the drug product dispensed, the state's Maximum Allowable Ingredient Cost (MAIC), the federal upper limit of reimbursement for listed multiple source drugs (called "Federal Allowable Cost," or FAC), or the charges to the general public. A dispensing fee is then added to this drug product payment (see B. below).

Effective January 1, 1995, \$0.50 is subtracted from the final payable amount of each drug claim line.

Prior to October 16, 1989, "Estimated Acquisition Cost" of the drug product dispensed for most drugs meant the average wholesale price (AWP) of a standard package size (e.g., 100s or pints) as listed in a price reference source such as the American Druggist Blue Book.

Effective October 16, 1989, the State Agency implemented regulation changes which redefined the Average Wholesale Price (AWP) component of EAC to be AWP minus 5 percent. This newly defined EAC, combined with the interactive reimbursement limits of MAIC and FAC, more closely represents the acquisition price paid by providers for drug products in California.

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The EAC for drug products manufactured by certain state-specified manufacturers who routinely distribute products to pharmacies on a direct from manufacturer basis means the manufacturer's direct price to pharmacies. Further, since some drugs are typically purchased by pharmacies in large or bulk sizes, for drugs so identified and specified by the State, the EAC is based on the price (AWP or Direct) of the package size indicated...

Effective May 1, 1990, the state initiated another change in its reimbursement methodology by applying AWP-5 percent to the state-established "Maximum Allowable Ingredient Cost" (MAIC). The new MAIC calculation results in a price decrease for certain drug products. MAIC reference products using Direct Prices as EAC are not affected by this change.

The "Maximum Allowable Ingredient Cost" is a price limit applied to frequently used multiple source drugs called high-volume generics. The MAIC is determined through a formal process of data collection and selection of a reference drug product (i.e., good quality brand available statewide) at whose AWP-5 percent the MAIC is benchmarked.

The federal upper limits of reimbursement, FAC, are initiated by HCFA and provided to the State Agency for implementation via the State Medicaid

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Manual's instructions. Periodic revisions to Addendum A of Section 6305.3 of the manual, which is the list of multiple source drugs and the FAC prices, are implemented by the State Agency following notice of new FAC limits to providers as required by California law.

When a provider's claim for a drug product is below all of the limits described above, it is deemed to be the usual and customary price charged to the general public, and payment is limited to the amount claimed.

The CA-MMIS computer programming, which controls payments, limits the payments to the least of the above options. This programming is in concert with the State Agency's definitions for drug product reimbursement limits.

Overrides to both the state and federal price ceilings are available only through a state prior approval mechanism. Prior approval is limited to those cases where the medical necessity of a specific manufacturer's brand of a drug, priced above the ceiling, is adequately demonstrated to a state consultant. The documentation of the approval is linked to the claims payment system assuring correct reimbursement for the brand dispensed. The same system is used for approval and payment for drugs not on the State Medicaid Drug Formulary.

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With a goal of improving the accuracy of the EAC concept, the State Agency undertook a survey of a representative sample of California pharmacies to determine actual acquisition costs for a sample of frequently prescribed drugs. The findings of that survey demonstrated an average acquisition cost of AWP minus 14 percent.

B. The method used to establish the pharmacy dispensing fees is as follows:

1. The determination of a proposed pharmacy dispensing fee by:
 - a. Development of an evidentiary base or fee study; or
 - b. Negotiation with representative organizations.
2. The presentation of the proposed pharmacy dispensing fee at public hearing to gather public input to the pharmacy dispensing fee determination process;
3. The determination of a pharmacy dispensing fee by the State Agency based on an evidentiary base or negotiation, including pertinent input from the public hearing process; and

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4. The establishment of the pharmacy dispensing fee through the State Agency's adoption of regulations specifying such fee. Through the above process, the dispensing fee is periodically updated when determined necessary by the State Agency.

Effective January 1, 1995, after the determination of the lower of allowable costs or actual charges for ingredient costs plus dispensing fee, \$0.50 is subtracted from the ingredient costs and the dispensing fee for each drug claim.

Based on a Department of Health Services survey, this \$0.50 reduction of ingredient costs and dispensing fees for each drug claim is consistent with reimbursement rates of other Third Party Payors in California and therefore is reasonable and consistent with efficiency, economy and quality of care.

In accordance with 42 CFR Section 447.332 and Section 447.333, we make the following findings and assurances:

1. Finding: To the best of our knowledge at this time, in the aggregate, Medicaid expenditures for multiple source drugs, identified and listed in accordance with 42 CFR 447.332(a) are in accordance with the upper limits specified in 42 CFR 447.332(b).
2. Finding: Based on our 1989 survey of a sample of California pharmacies and analysis of claims paid data, in the aggregate, Medicaid expenditures for all "other drugs" are in accordance with the respective requirements of 42 CFR 447.331.

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3. Assurances: The State acknowledges, and hereby provides assurance to HCFA that:

- a. For multiple source drugs, the State will annually assure that the requirements set forth in 42 CFR 447.331(a) and 447.332 concerning upper limits and in 447.333(b)(1) concerning agency findings are met; and
- b. For "other drugs," the State will assure triennially that the requirements set forth in 42 CFR 447.331(b) concerning upper limits and in 447.333(b)(1) concerning agency findings are met.

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